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Entrepreneurial Competition Orientation and Profitability: The Case of a Developing Economy

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Abstract

The main purpose of this paper is to verify the significance of the implementation of competition orientation (CO) as a part of market orientation for the financial performance of the entrepreneurial small and medium – sized companies in a developing economy. The objectives are: 1. To measure the level of each of the variables of the scale (CO 1: The management continuously analyses the strengths and weaknesses of the competitors; CO 2: We regularly use information about our competitors in strategy creation; CO 3: When a competitor launches a campaign towards our market position we take immediate action; CO 4: We target customers where we have or can develop competitive advantage; CO 5: We create our strategy on the basis of detailed and effective competitor analysis.); 2. To determine the average level of CO in entrepreneurial small and medium – sized companies; 3. To prove the effect CO has on profitability. The methodology included both quantitative and qualitative methods and, the research was done in entrepreneurial companies from the food production industry. This research is a part of an ongoing project entitled: "Strengthening the business capacity of women entrepreneurs in Republic of Macedonia, as a developing country". Primary data was derived from questionnaires and semi-structured follow-up interviews. Secondary data was collected from books, journals and academic articles. Data was analysed with IBM SPSS19. The conclusions are given on the basis of descriptive and deductive statistics. The results show that companies of different sizes demonstrate diverse level of implementation of CO i.e. medium – sized companies implement higher levels on every analysed variable of CO than small companies. The results also corroborate the significant relationships among the five dimensions of CO, as well as their relationship with profitability of the analysed companies. Also, a direct influence of the level of CO implementation on business profitability was found. The main limitation of this study is that it analyses a single industry in a given period of time and, the (small) size of the sample. However, the paper has some practical implications: it proves that to achieve higher financial performance small and medium – sized companies must adopt and implement higher level of competitor orientation, as a part of the market orientation process. Also, the measurability of this part of market orientation on the basis of the MKTOR and

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MARKOR scales makes available a valuable tool for control of its implementation. The value of the paper derives from the verification of the significance of the relationship between CO and profitability, in a different business sector and with a different research subject from those analysed hitherto by the literature.

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Keywords: Competitor orientation; Market orientation; Profitability; Entrepreneurship; Developing economy

1. Introduction

The role of small and medium entrepreneurial companies in the nation's economy is significant and crucial, especially for the countries which have trivial and developing market economies. These companies contribute to the job creation and exports of goods and services. Several equally important economic effects of these types of companies move through indirect channels. Successful development of this sector creates political and social environmental conditions necessary to allow desirable changes to occur elsewhere in the system. It may absorb resources and workforce from large companies, helping to create reorientation and reorganization of large enterprise sector without any social turbulence. In addition, failing to develop this sector may increase budgetary costs of unemployment and early retirement (Davcev, 2008). All of this is acknowledging the fact that developing economies need strong entrepreneurial companies, highly positioned in competitive domestic and foreign markets, which will pay significant attention on strategic planning and market orientation.

Implementation of market orientation as a marketing management concept, enables companies to attain several benefits: better response to - and satisfaction of customers' needs; detailed analysis of competitors and better preparation for defensive or offensive strategies; increased internal information sharing and improved decision making; orientation on long term strategic planning instead of short term activities; etc. Market orientation is considered to be a complex term which consist of (Kohli & Jaworski, 1990) and (Narver & Slater, 1990): consumer orientations, reaction on consumer demands, competitor orientation, inter – functional coordination or internal information sharing. This paper presents the empirical results of one of the components of market orientation, specifically, competitor orientation level and implementation, in entrepreneurial companies in a developing economy. Competitor orientation is the component explaining companies' behavior in regards to: generic strategies (general strategic orientation); the relationship with the environment; their competitive position; the tendency to adapt, innovate, explore, attack; etc.

Companies in developing economies have to adapt to the challenges that rise from the changes in the process of transition, which additionally puts pressure on normal course of work. Macedonia belongs in transition economies and, has witnessed significant structural changes in its domestic market (Davcev & Hourvouliades, 2013). These everyday tasks that become challenges in a medium and long run come from escalation of rivalry among competitors, rise in the amount of product substitutes, increased prospects for product quality, functionality etc. Ferguson (1992) argues that lack of developed institutions, absence of skills and knowledge are some of the difficulties in marketing management processes faced by companies in developing economies. Also, Zurawicki and Becker (1994) have identified several key marketing management challenges in companies in developing economies: low confidence in the integrity and efficiency of managers by broader public; absence of databases and representative research; gaps in the basic knowledge of management and marketing; failure to develop long-term strategies; absence of specific strategies for domestic markets; low entrepreneurial activities; insignificant starting capital and limited financial resources; orientation toward short-term financial results; affinity for small investments.

Macedonian entrepreneurial companies face problems common for developing economies, such as (Agency for Promotion of Entrepreneurship of the Republic of Macedonia, 2005) and (Ministry of Economy of the Republic of

Macedonia, 2009): the development of the economy is based mainly on traditional markets through export of metals, food and beverages; competitiveness is price - based; quality of products is low despite consumer demands for higher quality; there is lack of certification for international quality standards and standardization of production processes; there is little information about market possibilities. A lot of these factors are typical marketing management activities, such as: market research, positioning, diffusion of innovations, analysis of competition, etc. Generally, previous research in the country shows moderately or low levels of use of marketing management activities, as a result of many factors of a different nature. Nevertheless, most research related to marketing management is dedicated to exploration of companies' practices in developed economies.

The focus of this paper is the food production industry in Macedonia for the following reasons (Economic Chamber of Macedonia, 2013): it contributes to the positive impact on the external trading balance of the country; it employs a significant part of the workforce in the state and, it is a major consumer of other domestic industries, such as the packaging industry, transportation services etc. Moreover, this industry is a part of a fragmented market for consumer goods, which is characterized with high rivalry among competitors, high possibility of new entrants, many substitute products, high bargaining power of suppliers and consumers. Market leaders are foreign companies with strong brands, higher prices of products and / or intensive promotion. On the other side, the domestic companies mostly implement the strategy of a follower or imitator with low – priced, low quality products. Continuous implementation of these strategies, on a market where the possibility to achieve better success, higher profit and larger market share are directly influenced by the sustainable competitive advantage, better competitive positioning and a proactive approach to strategic planning and marketing – management activities (Jovanov Marjanova, 2012), can be damaging to the companies in a way that produces a long - term inability to achieve higher market competitiveness.

These facts highlight the importance of additional research in the area of strategic marketing management in developing economies, such as Macedonia, because through sufficient evidence of the significance of these activities for business performance, new generations of managers can make a difference in the business operations.

2. Literature Review and Hypotheses

2.1. Market orientation and performance

Market orientation can be explained as a form of organizational culture where employees are committed to continuously create superior customer value. Another way of explanation is that market orientation should be seen as a sequence of marketing activities that lead to better performance. Years of research have concluded that market oriented companies perform better than companies that are less market oriented. They pay attention on familiarizing their products and services to the needs and expectations of their customers instead of those who are product oriented (Grönroos, 2006). A company with a high degree of market orientation promotes a set of common values and beliefs that will put the customer first and gains results in form of an unassailable competitive advantage, decreased costs and increased profits (Desphandé, 1999).

Kohli and Jaworski (1990) were the first experts who started investigating market orientation in their research with three major components: intelligence gathering, intelligence dissemination, and responsiveness to market intelligence and, defined market orientation as implementation of the marketing concept to achieve superior performance. Also, this subject was additionally observed by other researchers (for example, Narver and Slater (1990); Levitt (1960) suggested that market orientation is needed in business management and administration to increase firm performance. As stated by Parasuraman, Berry, and Zeithaml (1988), marketing skills as well as market orientation were needed in organization to fulfill customers' needs and satisfaction. In addition, with the skills available, the organizations can make use of market orientation and convert into marketing capabilities effectively to gain competitive advantage (Liu & Wang, 2009). Martin and Grbac (2003) described market orientation as a strategy to create competitive advantage to satisfy customers (Chao & Spillan, 2010; Kok & Biemans, 2009).

The market orientation concept focuses on corresponding business intelligence generation, dissemination and responsiveness to market information for efficient and effective decisions (Sundqvist, Puumalainen & Saminen, 2000; Kohli & Jaworski, 1990). This concept is also connected with subjects including organizational culture, innovation, human resource planning and organizational learning (Narver & Slater, 1990; Ruekert, 1992; Baker & Sinkula, 1999; Greenley, Cadogan & Fahy, 2005; Keskin, 2006). Market orientation theorists such as Kohli and Jaworski (1990), Narver and Slater (1990), Ruekert (1992), Gainer and Pandanyi (2005), Carr and Lopez (2007) have argued that market orientation traces its origins from the market concept and has consequences to overall business strategy.

Reviewing the existing literature on market orientation and entrepreneurial companies' performance, two key questions are important. First of all, given the fact that companies are categorized by different levels of market orientation implementation, companies could be classified, depending on the degree to which they have developed a market orientation and secondly, to what extent the magnitude of the relationship between market orientation and company performance is independent from the market the company is part of? While this paper does not report definite answers to such questions, it does detail some interesting empirical evidence that could help answering part of them.

The impact of market orientation as a business philosophy and process, regardless of companies' size, can be felt on many levels: 1. Efficiency/performance of the business (profitability, return rate of investment - ROI, market share, etc.); 2. Consumers, i.e. possibility to increase the level of satisfaction and to retain existing customers (Krepapa et al, 2003); 3. Distribution channels, expressed through trust and closer cooperation with distributors and getting greater bargaining power in the distribution channels (Day, 1994); 4. Public, i.e. market orientation enables a firm to timely notice the changes in the views of the public as one of the company's stakeholders, and to implement these in operation, for example: increasing importance of corporate social responsibility (Narver & Slater, 1990) etc. Research shows that small enterprises have the lowest level of implementation of all of the activities that describe market orientation, while medium-sized enterprises, on the other hand, show better results with higher average values on all of market orientation activities (Jovanov Marjanova, 2014).

2.2. Competitor orientation and performance

Competitor orientation is defined as the ability to understand the competitor's short term strengths and weaknesses and its long term capabilities and strategies, in order to generate competitive advantage in the organizations (Zhou et al., 2009). Diamantopoulos and Hart (1993) suggested that the measurement of performance played a very important role in understanding the competitor orientation-performance relationship. In order to capture the multi-dimensionality of performance (Chakravarthy 1986) in his works he uses two criteria, namely return on asset and return on investment. By adopting the two-dimensional framework of performance, they provide a more complete structure for competitor orientation-performance research and also a diagnostic tool for managers.

There are researchers that have found a positive link (theoretically and empirically) between the market orientation, especially competitor orientation and business performance (e.g., Narver & Slater, 1990; Slater & Narver, 1994a; Jaworski & Kohli, 1993; Kumar et. al., 1997). The final conclusion from all of them is that a business that increases its competitor orientation will improve its performance.

Competitor orientation highlights the significance of considerate competitors and their actions (Narver and Slater, 1990). Small and medium – sized entrepreneurial companies are often in a risky position because they concentrate on short – term and personal issues and are not appropriately focused on competitors (Harris, Martinez & Ward, 1994). Small businesses are often characterized as conventional and slow to react in competitive environments (Zahra, Hayton, Neubaum, Dibrell & Craig, 2008). Moreover, small businesses give emphasis to making key decisions by the owner (Habbershon & Williams, 1999), limiting the ability of other employees to influence to strategic planning (Jaworski & Kohli, 1993). The significance for businesses to recognize their present and predicted upcoming competitors is highlighted as one of the more important things in the strategic planning (Kai & Fan, 2010).

2.3. Development of Hypotheses

In the light of the above mentioned literature, we can conclude that companies from development economies are facing many challenges on the basis on which they demonstrate some weaknesses in their strategic planning, such as: inability to plan or implement strategy, insufficient situational analysis, lower levels of market orientation and lower market competitiveness in general. With sufficient evidence for the impact of the mentioned factors, new generation managers in developing economies may create a base that will implement the changes needed for strategic planning. Therefore, in order to confirm the effect that the components of market orientation, specifically competitor orientation, have on business performance, we propose the following hypotheses:

1. Entrepreneurial companies operating in a developing economy implement medium level of competitor orientation.
2. The variables explaining CO are significantly and positively inter – connected.
3. Implementation of higher level of CO in business strategy and activities directly and positively affect business profitability.

3. Research methodology

3.1. Research Goal

The main goal of this paper is to verify the significance of implementation of higher level of competition orientation (CO) as a part of market orientation for the financial performance of the entrepreneurial small and medium – sized companies in a developing economy. The objectives are:

1. To measure the level of implementation of each of the variables of the scale:

CO 1: The management continuously analyses the strengths and weaknesses of the competitors;
CO 2: We regularly use information about our competitors in strategy creation;
CO 3: When a competitor launches a campaign towards our market position we take immediate action;
CO 4: We target customers where we have or can develop competitive advantage;
CO 5: We create our strategy on the basis of detailed and effective competitor analysis;

2. To determine the average level of CO in entrepreneurial small and medium – sized companies and,
3. To prove the positive effect CO has on profitability.

3.2. Sample and Data Collection

This research is a part of an ongoing project entitled: “Strengthening the business capacity of women entrepreneurs in Republic of Macedonia, as a developing country”. The methodology included both quantitative and qualitative methods and, the research was done in entrepreneurial companies from the food production industry. Primary data was derived from questionnaires and semi-structured follow-up interviews with 17 managers/owners of small and medium – sized entrepreneurial companies. Secondary data was collected from books, journals and academic articles. The scale measuring the competitor orientation (CO) was developed on the basis of the MKTOR (Narver & Slater, 1990, p.24) and MARKOR (Kohli et al, 1993, p.476) and (Farell & Oczkowski, 1997, pp.10-11) scales of market orientation, with two new variables in the scale (CO 2 and CO 5). The new variables were introduced for two main reasons: 1. To test the degree to which the companies understand their competitors through extensive evaluation which includes analysis of information, not only collection and distribution and, 2. Whether companies actually take action and implement the findings of the competitor analysis. The level of implementation of competitor orientation was measured through the analysis of managers / owners opinions on a 5-degree subjective

Likert scale, (from 1-5, where 1 is - never / negligible use, 5 - always / significant use). The subjective scale is taken as a measure for several reasons: 1. Managers' avoidance to provide accurate data that reflect their performance; 2. Some companies do not know the exact number/percentage of their market share and can express it only subjectively and descriptively; 3. Studies show a high level of convergence between subjective and objective scales for measuring business performance, including this particular scale (Dawes, 1999). Data was analysed with IBM SPSS19. The conclusions are given on the basis of descriptive and deductive statistics.

3.3. Analyses and Results

The presented model of CO, measured by interval Likert scale, allows the level of implementation of CO to be determined by measures of central tendency in this case - the arithmetic mean of the responses of managers for each of the variables that make up the scale (Aaker et al, 2007). Scale reliability was tested with coefficient Cronbach alpha (α) and, the results show that the scale in its entirety has an excellent level of internal consistency, i.e. α = 0,928 (Gliem & Gliem, 2003), (George & Mallery, 2003) and (Chong, 2001). This means that the test can simply be repeated in future research.

Descriptive statistics shows that the shares of the companies by size in the purposive statistical sample of 17 enterprises are nearly equal with 8 or 47.1% - small and 9 or 52.9% medium – sized. On the account of profitability, most of the companies (58.8%) have reported very good profitability, while others (11.8%) have reported well and, nor good nor bad (17.6%) profitability (table 1).

Table 1. Companies' profitability

		Frequency	Percent	Cumulative Percent
Valid	Nor good nor bad	3	17.6	17.6
	Good / well	2	11.8	29.4
	Very good	10	58.8	88.2
	Extremely good	1	5.9	94.1
	Absolutely outstanding	1	5.9	100.0
	Total	17	100.0	

The analysis of the level of implementation of competitor analysis has shown that the average values of each of the variables tested are on a medium level (3 - 4) and neither of the variables is being implemented on a very high / significant level (5) (table 2). The most practiced actions are continuous analysis of the strengths and weaknesses of the competitors (4.06) and, immediate reactions to competitor campaigns toward own market position (4). The least practiced actions (CO 4 – 3.47 and CO 5 – 3.24) show that the managers / owners of the companies are aware of the weaknesses in the implemented strategies, that is, they don't always target consumers in accordance to competitive advantage and, do not always create their business strategy on the basis of detailed and effective competitor analysis. The average value of the level of implementation of CO is medium (3.61) in support of the first hypothesis.

Table 2. Average value of the CO variables

		CO 1	CO 2	CO 3	CO 4	CO 5	CO (average value)
N	Valid	17	17	17	17	17	17
	Missing	0	0	0	0	0	0
Mean		4.06	3.82	4.00	3.47	3.24	3.61
Minimum		1	1	1	1	2	1
Maximum		5	5	5	5	5	5

This study also examines the implementation of the tested variables of CO in companies by size. The results show that managers / owners of small companies have a tendency to rarely or just sometimes use all of the statements that explain the implementation of CO in business activities. On the other side medium – sized companies have stated that they often or always use the analysed variables. This reveals that small companies tend to implement lower levels of CO as opposed to medium – sized companies (table 3).

Table 3. Crosstabulation: Companies by size*Implementation of CO variables

			CO 1 The management continuously analyses the strengths and weaknesses of the competitors				
			Never	Rarely	Sometimes	Often	Always
Size of the company	small	Count	1	1	1	3	2
		% within size of the company	12.5%	12.5%	12.5%	37.5%	25.0%
	medium	Count	0	0	1	2	6
		% within size of the company	.0%	.0%	11.1%	22.2%	66.7%
Total		Count	1	1	2	5	8
		% within size of the company	5.9%	5.9%	11.8%	29.4%	47.1%

			CO 2 We regularly use information about our competitors in strategy creation				
			Never	Rarely	Sometimes	Often	Always
Size of the company	small	Count	1	1	2	2	2
		% within size of the company	12.5%	12.5%	25.0%	25.0%	25.0%
	medium	Count	0	0	1	5	3
		% within size of the company	.0%	.0%	11.1%	55.6%	33.3%
Total		Count	1	1	3	7	5
		% within size of the company	5.9%	5.9%	17.6%	41.2%	29.4%

			CO 3 When a competitor launches a campaign towards our market position we take immediate action				
			Never	Rarely	Sometimes	Often	Always
Size of the company	small	Count	1	1	1	3	2
		% within size of the company	12.5%	12.5%	12.5%	37.5%	25.0%
	medium	Count	0	0	1	3	5
		% within size of the company	.0%	.0%	11.1%	33.3%	55.6%
Total		Count	1	1	2	6	7
		% within size of the company	5.9%	5.9%	11.8%	35.3%	41.2%

			CO 4 We target customers where we have or can develop competitive advantage			
			Never	Sometimes	Often	Always
Size of the company	small	Count	2	3	2	1
		% within size of the company	25.0%	37.5%	25.0%	12.5%
	medium	Count	0	4	2	3
		% within size of the company	.0%	44.4%	22.2%	33.3%
Total		Count	2	7	4	4
		% within size of the company	11.8%	41.2%	23.5%	23.5%

			CO 5 We create our strategy on the basis of detailed and effective competitor analysis			
			Never	Sometimes	Often	Always
Size of the company	small	Count	3	2	2	1
		% within size of the company	37.5%	25.0%	25.0%	12.5%
	medium	Count	3	2	2	2
		% within size of the company	33.3%	22.2%	22.2%	22.2%
Total		Count	6	4	4	3
		% within size of the company	35.3%	23.5%	23.5%	17.6%

On the basis of Pearson correlation the analysis demonstrates significant inter - connection between the activities / variables that explain competitor orientation, as well as significant connection between all of the tested variables and business profitability (table 4).

Table 4. Correlations: Profitability*CO variables

		CO 1	CO 2	CO 3	CO 4	CO 5	CO (average value)
Profitability	Pearson Correlation	.853**	.828**	.814**	.767**	.511*	.669**
	Sig. (2-tailed)	.000	.000	.000	.000	.036	.003
	N	17	17	17	17	17	17
CO 1	Pearson Correlation	1	.839**	.712**	.701**	.353	.753**
	Sig. (2-tailed)		.000	.001	.002	.164	.000
	N	17	17	17	17	17	17
CO 2	Pearson Correlation	.839**	1	.895**	.872**	.564*	.841**
	Sig. (2-tailed)	.000		.000	.000	.018	.000
	N	17	17	17	17	17	17

CO 3	Pearson Correlation	.712**	.895**	1	.909**	.558*	.850**
	Sig. (2-tailed)	.001	.000		.000	.020	.000
	N	17	17	17	17	17	17
CO 4	Pearson Correlation	.701**	.872**	.909**	1	.802**	.862**
	Sig. (2-tailed)	.002	.000	.000		.000	.000
	N	17	17	17	17	17	17
CO 5	Pearson Correlation	.353	.564*	.558*	.802**	1	.580*
	Sig. (2-tailed)	.164	.018	.020	.000		.015
	N	17	17	17	17	17	17
CO (average value)	Pearson Correlation	.753**	.841**	.850**	.862**	.580*	1
	Sig. (2-tailed)	.000	.000	.000	.000	.015	
	N	17	17	17	17	17	17

**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed).

Prior regression analysis, it was important that some of the underling conditions for linear regression are met: 1. Linear relationship between the dependent variable and the independent one (confirmed by significant correlation association of phenomena and F-test); 2. High reliability of the test (Gliem & Gliem, 2003) for measuring of the independent variables (determined by the values of Cronbach's alpha α = 0,928); 3. There is no multicollinearity between independent variables (VIF < 5).

Following the proven connection of the phenomena, the dependence of business profitability of the level of CO implementation was tested. Thereby, as shown in table 5, according to the decision-making rule: $t > t_{df:\alpha}$ (Newbold et. al., 2007), the simple linear regression analysis confirmed the linear dependence of profitability of the level of CO. (Sig. = α=0.003; coefficient of determination R^2 = 0. 448; t- test statistics t = 3. 487; degrees of freedom df = 16; critical value of the test $t_{df:\alpha}$ =2.583). Moreover, using the F-test (Table 5), the relationship between profitability and the level of CO is proven to be statistically significant (F = 12.157; degrees of freedom $df_1 = 1$ $df_2 = 15$ and critical value of the test $F_{1;15} = 8.68$).

Table 5. Impact of continuous preparation of a written marketing plan on profitability (Regression estimates)

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4.415	0.929		4.750	0.000
CO (average value)	0.862	0.247	0.669	3.487	0.003

Notes: R Square: 0.448, Adjusted R Square: 0.411, F=12.157, Sig.F=0.003, N = 17, *significant at 5%,*dependent variable: profitability

The relation of CO and profitability of the business expresses the importance of the higher level of CO implementation for better performance and competitiveness of companies, because higher profitability also implies greater possibility to reinvest for growth and development of the enterprise.

4. Conclusion

Our paper examines the presence of a key strategic orientation in entrepreneurial companies - competitor orientation. The results present the current level of CO implementation in entrepreneurial companies in a developing economy, i.e. it is established that small and medium sized companies in a developing economy tend to implement CO to a medium level. This is more so in the case of medium – sized companies, whereas small companies have shown lover level of CO implementation. Additionally, the research proposes that when a company implements one of the explaining activities / variables of CO on a higher level, it is more likely to do so with the other activities as well, as there is a significant correlation among CO variables. The findings of the study suggest that competitor orientation may serve as an important part of the process of strategy creation, since the analysis has confirmed that higher level of implementation of competitor orientation directly and positively affect business performance, i.e. profitability. We can conclude that the implementation of competitor orientation in entrepreneurial companies in a developing economy is of high significance, because the many different changes that these companies are facing under the transition process calls for proactive market approach and high degree of market orientation in general. This paper helps realign the empirical research of competitor orientation with its foundational theory.

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